

## **JUSTIFICATION OF ESTIMATES**

### **The Administration's Proposed Appropriation Language**

#### **[DUAL BENEFITS PAYMENTS ACCOUNT] *FEDERAL WINDFALL SUBSIDY***

*For payment to the Federal Windfall Subsidy, authorized under section 15(d) of the Railroad Retirement Act of 1974, \$119,000,000, which shall include amounts becoming available in fiscal year 2004 pursuant to section 224(c)(1)(B) of Public Law 98-76; and in addition, an amount, not to exceed 2 percent of the amount provided herein, shall be available proportional to the amount by which the product of recipients and the average benefit received exceeds \$119,000,000: Provided, That the total amount provided herein shall be credited in 12 approximately equal amounts on the first day of each month in the fiscal year.*

*Note. - A regular fiscal year 2003 appropriation for this account had not been enacted at the time this budget justification was prepared. This account is currently operating under the continuing resolution P.L. 107-229, as amended. The amounts included for 2003 in this budget justification reflect the Administration's fiscal year 2003 policy proposals.*

### **Explanation of Proposed Appropriation Language**

Appropriation language	Explanation
<i>For payment to the Federal Windfall Subsidy, authorized under section 15(d) of the Railroad Retirement Act of 1974, \$119,000,000, which shall include amounts becoming available in fiscal year 2004 pursuant to section 224(c)(1)(B) of Public Law 98-76; and in addition, an amount, not to exceed 2 percent of the amount provided herein, shall be available proportional to the amount by which the product of recipients and the average benefit received exceeds \$119,000,000:...</i>	The proposed appropriation language provides \$119,000,000 to the Dual Benefits Payments Account for payment of vested dual benefits. Of the \$119,000,000, it is estimated that \$8 million will be derived from income tax revenues as provided by Section 224(c)(1)(B) of Public Law 98-76. Also, an additional reserve amount not to exceed \$2,380,000 (\$119,000,000 X 2%) will be made available only if the product of recipients and the average benefit received exceeds the product anticipated in the budget estimates.
<i>...Provided, That the total amount provided herein shall be credited in 12 approximately equal amounts on the first day of each month in the fiscal year.</i>	The monies provided to the Dual Benefits Payments Account are to be made available to the account on a monthly basis in 12 approximately equal amounts.

### Authorizing Legislation

<u>Legislation</u>	<u>2003</u>		<u>2004</u>	
	<u>Authorized</u>	<u>Current estimate</u>	<u>Authorized</u>	<u>Appropriation request</u>
Railroad Retirement Act of 1974 as amended: Sections 15(d)(1), 7(c)(1), and 15(i)(2) Dual Benefits Payments	Indefinite	\$132,000,000 <u>a/</u>	Indefinite	\$119,000,000

a/ A regular fiscal year 2003 appropriation for this account had not been enacted at the time this budget justification was prepared. This account is currently operating under the continuing resolution P.L. 107-229, as amended. This amount reflects the Administration's proposed level of funding for fiscal year 2003.

#### Section 15(d)(1):

"There is hereby created an account in the Treasury of the United States to be known as the Dual Benefits Payments Account. There is hereby authorized to be appropriated to such account for each fiscal year beginning with the fiscal year ending September 30, 1982, such sums as are necessary to pay during such fiscal year the amounts of annuities estimated by the Board to be paid under sections 3(h), 4(e), and 4(h) of this Act and under sections 204(a)(3), 204(a)(4), 206(3), and 207(3) of Public Law 93-445."

#### Section 7(c)(1):

"In any fiscal year, the total amounts paid under such sections shall not exceed the total sums appropriated to the Dual Benefits Payments Account for that fiscal year."

#### Section 15(i)(2):

"The Secretary of the Treasury shall, on a monthly basis, credit each account established in the Treasury for the payment of benefits under this Act for the proportionate amount of benefit checks (including interest thereon) drawn on each such Account more than six months previously but not presented for payment and not previously credited to such Account, to the extent provided in advance in appropriation Acts."

## Appropriations History Table

### Dual Benefits Payments Account a/

<u>Year</u>	<u>Budget estimate to the Congress</u>	<u>House allowance</u>	<u>Senate allowance</u>	<u>Appropriation/ continuing resolution</u>
1995	\$261,000,000	\$261,000,000	\$261,000,000	\$254,000,000 <u>b/</u>
1996	\$240,000,000	\$239,000,000	\$239,000,000	\$239,000,000
1997	\$223,000,000	\$223,000,000	\$223,000,000	\$223,000,000
1998	\$206,000,000	\$206,000,000	\$205,500,000	\$205,500,000
1999	\$191,000,000	\$191,000,000	\$189,000,000	\$189,000,000
2000	\$175,000,000	\$175,000,000	\$174,000,000	\$173,339,000 <u>c/</u>
2001	\$160,000,000	\$160,000,000	\$160,000,000	\$160,000,000
2002	\$146,000,000	\$146,000,000	\$146,000,000	\$146,000,000
2003	\$132,000,000	\$132,000,000	\$132,000,000	\$132,000,000 <u>d/</u>
2004	\$119,000,000			

a/ For all amounts on the following table, the appropriation language provides that an additional amount, not to exceed 2 percent of the appropriation amount, shall become available proportional to the amount by which the product of recipients and the average benefit received exceeds the appropriation amount. The appropriation language also specifies that the amount made available will be credited to the account on a monthly basis in 12 approximately equal amounts.

b/ Amount reflects appropriation received under Public Law 103-333 of \$261,000,000, less the rescission of \$7,000,000 under Public Law 104-19.

c/ Amount reflects appropriation received under Public Law 106-113 of \$174,000,000, after the rescission of \$661,000.

d/ A regular fiscal year 2003 appropriation for this account had not been enacted at the time this budget justification was prepared. This account is currently operating under the continuing resolution P.L. 107-229, as amended. This amount reflects the Administration's proposed level of funding for fiscal year 2003.

### **Funding Sources**

The proposed appropriation language calls for funding from the following source.

<u>Funding sources</u>	Budget <u>authority</u> <u>a/</u>
General revenue	\$119,000,000

[Of the \$119,000,000 to be funded from general revenue, \$8,000,000 is expected from income taxes on vested dual benefits.]

a/ The proposed appropriation language provides that "... an amount, not to exceed 2 percent of the amount provided herein, shall be available proportional to the amount by which the product of recipients and the average benefit received exceeds \$119,000,000 ...."

**Dual Benefits Payments Account**

**Amounts Available for Obligation**

	Fiscal year 2002 <u>actual</u>	Fiscal year 2003 <u>estimate</u>	Fiscal year 2004 <u>estimate</u>
Appropriation (general funds of the Treasury)	\$146,000,000	\$132,000,000	\$119,000,000
Plus:			
Transfer from other accounts (Federal Payments to the Railroad Retirement Accounts)	<u>3,000 a/</u>	<u>3,000 a/</u>	<u>3,000 a/</u>
Subtotal	\$146,003,000	\$132,003,000	\$119,003,000
Less:			
Unobligated balance	<u>3,850,000</u>	<u>0</u>	<u>0</u>
Total obligations (payments to beneficiaries)	<u>\$142,153,000</u>	<u>\$132,003,000</u>	<u>\$119,003,000</u>

a/ This amount represents this account's share of interest on uncashed checks.

### **Explanation of 2004 Request**

This is the 29th request for appropriations authorized by the Railroad Retirement Act of 1974 to fund vested dual benefits received by railroad retirees who, under prior law, would have become covered by both the railroad retirement system and the social security system because railroad retirement was not fully coordinated with social security from 1937 to 1974.

Under laws in effect prior to 1975, a worker engaging in covered employment under both the Railroad Retirement Act and Social Security Act could receive benefits separately under both Acts. Because the social security benefit formula is weighted in favor of the low wage earner, the total of a worker's benefits from both systems averaged more than annuities of railroad employees who worked in the rail industry exclusively, and who had paid proportionally higher retirement taxes for the purpose of receiving higher benefits. The cost of the dual benefits was borne by the railroad retirement system since they reduced the system's income from its financial interchange with the social security system.

This situation was the major cause of the poor financial condition of the railroad retirement system in the early 1970's. In order to improve the system's financial condition, the Railroad Retirement Act of 1974 provided that the tier I component of the railroad retirement annuity be reduced by any social security benefit. This essentially integrated the two systems and eliminated the advantage of qualifying for benefits under both systems.

However, it was generally considered unfair to eliminate this advantage entirely for those already retired or close to retirement when the 1974 Act became effective. The 1974 Act, therefore, provided for a restoration of benefits which were considered vested at the end of 1974. The restored amount was known as the "vested dual benefit."

After considering various alternatives, the Congress authorized general fund appropriations to finance the cost of phasing out dual benefits. The Congress considered it unfair to impose this cost on current and future railroad employees because such employees would not be permitted to receive dual benefits upon retirement (except where vested rights were involved). Similarly, the Congress believed that it would be unfair to impose this cost on railroads because railroads had not benefitted and had consistently opposed the creation and expansion of dual benefits. Financing the vested dual benefit component of railroad retirement annuities from general revenues was supported by a precedent regarding military service and by the fact that the dual benefit problem had been brought about by prior Congressional action repealing past dual benefit restrictions over the objections of the railroads.

Under the 1974 Act, appropriations had been authorized from general revenues for the phase-out costs of vested dual benefits. The amounts were to be sufficient to fund vested dual benefits on a level payment basis over the years 1976-2000. Because there was no provision in the law to reduce vested dual benefits to a level that would be fully covered by the amount appropriated, railroad retirement taxes were being used to cover the shortfall in the appropriation from general revenues. This led to a drain on the Railroad Retirement Account and contributed to a cash flow crisis.

To stop the resulting drain on the Railroad Retirement Account, the 1981 amendments changed vested dual benefits to a pay-as-you-go basis rather than a level-payment system. Starting in fiscal year 1982, vested dual benefits were to be reduced so as not to exceed the amount of the annual appropriation.

The Railroad Retirement Solvency Act of 1983 provided that revenues generated from income taxes on vested dual benefits be credited to the Railroad Retirement Account for fiscal years 1984 through 1988, and thereafter to the Dual Benefits Payments Account. Thus, since fiscal year 1989, these taxes have been credited to the Dual Benefits Payments Account and applied as an offset to the amount of funding needed from general revenues.

For fiscal year 2003, \$132,000,000 has been proposed to fund vested dual benefits. An estimated \$12,000,000 will be derived from income taxes on these benefits, and the remainder from general revenues.

The fiscal year 2004 appropriation language provides for 12 monthly payments to this account from general revenues and specifies that \$119,000,000 be appropriated for benefits. In addition, the proposed language provides that an additional amount not to exceed 2 percent of the \$119,000,000 appropriated -- or up to \$2,380,000 -- shall be available proportional to the amount by which the product of recipients and the average benefit received exceeds \$119,000,000.